

GAO

**Briefing Report to the Chairman,
Subcommittee on Defense, Committee on
Appropriations, House of
Representatives**

September 1999

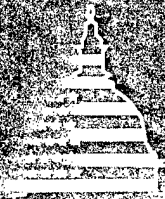
**MILITARY
OPERATIONS**

**Some Funds for Fiscal
Year 1999 Contingency
Operations Will Be
Available for Future
Needs**



DISTRIBUTION STATEMENT A
Approved for Public Release
Distribution Unlimited

19991012 047



GAO



United States General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-283395

September 21, 1999

The Honorable Jerry Lewis
Chairman, Subcommittee on Defense
Committee on Appropriations
House of Representatives

Dear Mr. Chairman:

In fiscal year 1999, U.S. military forces are participating in a number of contingency operations, most notably in the Balkans and Southwest Asia. Through June 1999, the Department of Defense (DOD) has reported about \$4 billion in incremental costs¹ for contingency operations in fiscal year 1999 and is estimating that there will be several billion dollars in additional costs through the end of the fiscal year. In response to your request, this report examines (1) the costs of and funding for fiscal year 1999 contingency operations and (2) whether any funds remaining at the end of fiscal year 1999 can be applied to fiscal year 2000 funding requirements.

Background

Since the end of the Persian Gulf War in 1991, the two largest contingency operations involving U.S. military forces are in the Balkans and Southwest Asia. These two operations account for 98 percent of DOD's reported fiscal year 1999 incremental costs for contingency operations through June 1999, the latest available data. In the Balkans, the United States was first engaged in Bosnia and, beginning this year, in Kosovo. U.S. involvement in Bosnia began in July 1992 as part of humanitarian relief efforts and then, in April 1993, the United States began to participate in the North Atlantic Treaty Organization (NATO) enforcement of a no-fly zone over Bosnia and Herzegovina in support of United Nations peacekeeping. From December 1995 through the present date, the United States has deployed military personnel in and around Bosnia to assist in implementing the General

¹ As used in this report, "incremental costs" means those costs that would not have been incurred if it were not for the operation. It should be recognized that DOD's financial systems cannot reliably determine costs and only the total obligations are captured by the accounting systems. The services use various management information systems to identify incremental obligations and to estimate costs. Although we use the term costs throughout this report as a convenience, we are actually referring to DOD's obligation of funds.

Framework Agreement (also known as the Dayton Agreement). U.S. forces, currently numbering about 6,200, are part of a multilateral coalition under NATO command. On March 24, 1999, the United States provided military forces in support of NATO combat operations against Yugoslavia following the failure of peace talks and escalating violence against ethnic Albanians in Kosovo. By late May 1999, more than 39,000 U.S. military personnel were involved in the operation. Combat operations officially ended on June 20, 1999. With the Yugoslav acceptance of a peace plan and United Nations' endorsement of the plan, the United States began providing troops to the NATO-led Kosovo Force, whose mission is peace enforcement in Kosovo. In fiscal year 1999, DOD has reported almost \$3.1 billion in incremental costs for Balkans operations through June 1999.

U.S. forces have been involved in no-fly zone enforcement over parts of Iraq since the end of the Persian Gulf War. The size of the U.S. force involved has on average comprised 15,000 to 20,000 personnel, many of them Navy and Marine Corps personnel embarked on ships. Beginning in December 1998 and continuing to this day, the United States has conducted a low level of air strikes against Iraq, first in support of United Nations weapons of mass destruction inspection efforts and then in response to Iraqi attempts to target allied aircraft enforcing the no-fly zones. In fiscal year 1999, DOD has reported \$887 million in incremental costs through June 1999.

DOD budgets for the cost of ongoing contingency operations and Congress includes funds for ongoing operations in the annual defense appropriations acts.² In the case of new or expanded operations, such as the operations involving Kosovo and the late 1998 military action involving Iraq, costs have not been budgeted in advance and the services generally borrow funds from other activities that they planned to conduct later in the fiscal year. If these funds are not replenished through supplemental appropriations or reprogramming of previously appropriated funds, then the services have to cancel planned activities.

Congress appropriates funds both directly to the services' appropriations accounts and to the Overseas Contingency Operations Transfer Fund. DOD can transfer funds in the Overseas Contingency Operations Transfer Fund to the services' appropriations accounts as operations unfold during the year. Any funds remaining in the fund at the end of a fiscal year can be

² See for example, Pub. L. 105-262, Oct. 17, 1998, 112 Stat. 2279 at 2284.

carried over to the next fiscal year. The bulk of fiscal year 1999 contingency operation funding was placed in the Overseas Contingency Operations Transfer Fund for subsequent transfer to the services. Congress also established a considerably smaller Operational Rapid Response Transfer Fund in fiscal year 1999 to fund the accelerated acquisition and deployment of selected technologies and systems for the military action involving Yugoslavia. Section I of this briefing report contains additional background information.

Results in Brief

Based on our analysis of available funding and costs through June 1999, we believe that there is sufficient funding for all fiscal year 1999 contingency operations costs and project that between \$138 million and \$475 million of the funds originally appropriated to fund fiscal year 1999 contingency operations could be applied to fiscal year 2000 funding requirements. The availability of funds originally intended to fund fiscal year 1999 contingency operations is due primarily to the fact that combat operations in Kosovo ended in June 1999 rather than continuing to the end of the fiscal year as anticipated. DOD agrees that there are sufficient funds to meet fiscal year 1999 costs, but believes that only \$138 million will be available to apply to fiscal year 2000 funding requirements.

Table 1 summarizes our analysis of the changes in funding requirements as a result of operational changes in Kosovo and Southwest Asia. In examining these changes, it is important to recognize that cost estimates are being revised and fiscal year 1999 cost reports are only available through June 1999. While it is not possible to precisely detail the net change in costs precipitated by the early end of military action and U.S. participation in the Kosovo Force and the resulting implications for funding, it is possible to provide a rough estimate of the possible net change based on the currently available data.

Table 1: GAO Estimate of Change in Funding Requirements for Fiscal Year 1999 Contingency Operations

(Dollars in millions)

Contingency operation	Cost category	Potential decrease	Potential increase	Net change
Kosovo	Air operations	\$1,745		
	Kosovo Force		\$1,157	
	Redeployment and reconstitution		351	
	Humanitarian relief	162		
	Munitions	—	—	
	Contingency reserve	—	—	
	Rapid Response Transfer Fund	—	—	
	Subtotal	\$1,907	\$1,508	\$399
Southwest Asia		76		76
Total		\$1,983	\$1,508	\$475

Funding Is Available to Meet All Fiscal Year 1999 Requirements

The early end of combat operations against Yugoslavia has had the greatest impact on fiscal year 1999 contingency operations funding. The costs associated with the air campaign as well as humanitarian assistance have declined substantially. This has, in turn, substantially reduced the funding requirement for these activities and made funds available for other operational costs. At the same time, the costs of participation in the Kosovo Force and the redeployment and reconstitution of equipment used in the combat operations against Yugoslavia were unbudgeted. However, on balance, decreased funding requirements exceed increased requirements; therefore, there is sufficient funding for all Kosovo operations' fiscal year 1999 costs. DOD also estimates that sufficient funds initially budgeted to finance combat operations will be left to fund participation in the Kosovo Force and redeployment and reconstitution costs. Section II of this briefing report contains the details of our analysis.

Estimated Southwest Asia fiscal year 1999 cost estimates and funding status present a mixed picture. Military personnel costs have risen by about \$120 million, primarily due to an expected increase in Air Force costs. At the same time, estimated operation and maintenance costs have declined

\$76 million. Office of the Secretary of Defense (Comptroller) officials assume that the services can absorb the increased military personnel costs within their existing military personnel funding because, as of August 30, 1999, the services had not requested any additional funds. Consequently, the Comptroller's office plans to use the \$76 million excess in funds related to reduced operation and maintenance costs to help fund other contingency operations. Section III contains details on Southwest Asia costs and funding.

Between \$138 Million and \$475 Million in Funds Could Be Available to Help Fund Fiscal Year 2000 Costs

We estimate that there could be between \$138 million and \$475 million remaining at the end of fiscal year 1999 that could be used to reduce fiscal year 2000 funding requirements for contingency operations, which are expected to exceed \$5 billion. The primary differences between DOD's \$138 million estimate and our \$475 million estimate relate to (1) the \$162 million in unexpended funds for humanitarian needs and whether DOD will be tasked to resource additional humanitarian needs and (2) \$175 million in estimated reconstitution costs that DOD expects will occur in fiscal year 2000. In discussing the \$175 million in estimated fiscal year 2000 reconstitution costs with DOD officials, they agreed that the \$175 million will not have been distributed to the services by the end of fiscal year 1999. These officials also noted that they do not intend to include that amount in their fiscal year 2000 budget request for Kosovo operations, which is still being developed because they view fiscal year 2000 reconstitution costs associated with the air campaign as covered in their current air campaign cost estimates and planned funds use. Section IV of this briefing report contains additional detail.

Agency Comments and Our Evaluation

In written comments on a draft of this report DOD stated that our original estimate of the amount of funds that can be applied to fiscal year 2000 costs was too high. In our draft report, we had identified up to \$1.9 billion as available to be applied to fiscal year 2000 requirements. DOD estimates that \$138 million will be available to apply to fiscal year 2000 requirements. DOD arrived at this estimate through a comparison of appropriated funds and revised cost estimates for Kosovo-related and Southwest Asia operations. DOD identified four reasons for the differences between our estimate and theirs. Based on DOD's comments and additional information we obtained, we have reduced our estimate of the amount of funds that could be available to apply to fiscal year 2000 requirements. However, we still feel that up to \$475 million in additional funds could be available to

apply to fiscal year 2000 requirements. Appendix I contains the full text of DOD's comments.

DOD identified the following reasons for the differences in estimated costs. One reason our estimate is higher than DOD's is because we assumed DOD's cost report through the end of June represented the total cost of the Kosovo air campaign. DOD disagrees with this assumption because it states that there is a time lag between recording obligations and their inclusion in the cost report. DOD states that the most accurate estimates of the air campaign costs are the budget estimates for the balance of fiscal year 1999 submitted by the services and defense agencies. We recognize that some additional costs are likely to be reported beyond June.

Preliminary July 1999 air campaign cost data for the military services show an additional \$196 million in costs, which probably includes a mix of further air campaign and redeployment costs. Consequently, we have reduced our air campaign cost calculation. We had already excluded from our calculation of potential carry-over funds DOD's estimate of \$351 million in fiscal year 1999 redeployment and reconstitution costs. However, we have included in our calculation of the amount of funds that would be available to apply to fiscal year 2000 requirements \$175 million in estimated reconstitution costs that DOD expects will occur in fiscal year 2000. In discussing this matter with DOD officials, they agreed that this \$175 million will not have been distributed to the services by the end of fiscal year 1999.

A second reason our estimate is higher is that while our report includes \$162 million in uncommitted funds set aside for refugee relief as available for fiscal year 2000 requirements, DOD believes that it is premature to declare such uncommitted funds as excess and available for fiscal year 2000 requirements. We exclude from our calculation the funds DOD has identified as needed for planned activities and question whether additional DOD funds need to be used for further relief activities given the efforts of other organizations. For example, on August 31, 1999, the United Nations reported that measures to repair structures in Kosovo and to place people in temporary housing should ensure winter shelter for all of the nearly 700,000 people whose homes have been damaged or destroyed.

In a draft of this report, we stated that \$1.1 billion for readiness and munitions would be available and could be applied to fiscal year 2000 requirements. DOD, in commenting on the draft report, stated that (1) it has validated requirements in excess of the \$1.1 billion for readiness and munitions, (2) expects the President will soon transmit an official budget

request that designates a significant portion of these funds as emergency, and (3) consequently, these funds should not be considered as available for fiscal year 2000 requirements. We agree that DOD can use these funds for specific items that the President identifies as meeting a critical readiness or sustainability need, to include replacement of expended munitions, and designates as an emergency requirement. Given that the President is expected to soon transmit a budget request, we have excluded the \$1.1 billion from our calculations and have revised our report accordingly. If the President's submission involves less than the full \$1.1 billion, the difference may become available to help fund other requirements.

Finally, DOD states that the \$300 million appropriated to the Operational Rapid Response Transfer Fund has been apportioned and allocated to the military departments for execution and that these funds will be obligated shortly. In our draft report we had considered the \$300 million in the transfer fund to be available. We have adjusted our calculations to reflect the fact that these funds have been distributed and are no longer available to apply toward fiscal year 2000 requirements.

Scope and Methodology

To assess the costs of fiscal year 1999 contingency operations and the adequacy of funding to finance them, we undertook a number of activities. To understand how DOD derived its cost estimates, we determined DOD's assumptions in developing estimates for the Balkans and Southwest Asia operations through discussions with the Office of the Secretary of Defense (Comptroller) and the military services and a review of various budget documents. To obtain information on reported costs, we reviewed DOD's contingency operations cost reports and fund distributions to the military services and other DOD agencies. We also held discussions and reviewed data at the Office of the Secretary of Defense (Comptroller), all service headquarters, and major commands within each service that were heavily involved in contingency operations in the Balkans and/or Southwest Asia, including the U.S. Army Forces Command, U.S. Army Europe, the Air Force's Air Combat Command, the Air Mobility Command, and the Navy Commanders in Chief, U.S. Atlantic and Pacific Fleet. We did not perform a data reliability assessment of reported costs. We have previously reported that when considering the cost of operations, it should be recognized that DOD's financial systems cannot reliably determine costs.³ Only the total

³ *Contingency Operations: DOD's Reported Costs Contain Significant Inaccuracies* (GAO/NSIAD-96-115, May 17, 1996).

obligations are captured by the accounting systems. The services use various management information systems to identify incremental obligations and to estimate costs.

To determine how operational changes have affected costs and the implications for fiscal year 1999 and fiscal year 2000 funding requirements, we undertook several steps. These included (1) identifying the assumptions made in developing DOD's budget requests, (2) ascertaining the pace of actual operations and comparing them with the assumptions made to develop budget requests, (3) reviewing the latest available cost reports, and (4) comparing them to available funding. To undertake these steps, we met with officials in the military services, including selected major commands and unified commands such as the U.S. European Command, U.S. Central Command, U.S. Pacific Command, and U.S. Transportation Command; reviewed service documents, including detailed budget estimates and cost reports; reviewed the legislation containing contingency operations funding; and discussed these matters with officials from the Office of the Secretary of Defense (Comptroller) and the Joint Staff.

We performed our work between January and July 1999 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Honorable William Cohen, Secretary of Defense; the Honorable William J. Lynn, Under Secretary of Defense (Comptroller); and the Honorable Jacob Lew, Director, Office of Management and Budget. We are also sending copies to Congressman John Murtha, Ranking Minority Member, Subcommittee on Defense, House Committee on Appropriations; Senator Ted Stevens, Chairman, Subcommittee on Defense and Senator Daniel Inouye, Ranking Minority Member, Senate Committee on Appropriations; Senator John Warner, Chairman, and Senator Carl Levin, Ranking Minority Member, Senate Committee on Armed Services; and Congressman Floyd Spence, Chairman, and Congressman Ike Skelton, Ranking Minority Member, House Committee on Armed Services. Copies will also be made available to

other interested parties on request. Principal contributors to this report are listed in appendix II. If you or your staff have any further questions concerning this report, please contact me at (202) 512-3504.

Sincerely yours,

A handwritten signature in black ink, reading "Norman Rabkin". The signature is written in a cursive, flowing style.

Norman J. Rabkin
Director, National Security Preparedness Issues

Contents

Letter	1
Briefing Section I Background	12
Briefing Section II Fiscal Year 1999 Cost and Funding for Balkans Operations	24
Briefing Section III Fiscal Year 1999 Cost and Funding for Southwest Asia Operations	46
Briefing Section IV Funding Status for Fiscal Years 1999 and 2000	48
Appendixes	
Appendix I: Comments From the Department of Defense	52
Appendix II: GAO Contacts and Staff Acknowledgments	54

Contents

Abbreviations

DOD	Department of Defense
KFOR	Kosovo Force
NATO	North Atlantic Treaty Organization
OCOTF	Overseas Contingency Operations Transfer Fund
OSD	Office of the Secretary of Defense
SWA	Southwest Asia

Background

GAO DOD's Fiscal Year 1999 Major Contingency Operations



The Department of Defense (DOD) describes contingency operations as military operations that go beyond the routine deployment or stationing of U.S. forces abroad but fall short of large-scale theater warfare. In a March 1999 report to Congress, DOD reported that since the end of the Persian Gulf War in February 1991, U.S. military forces have conducted or participated in approximately 50 overseas smaller-scale contingency operations involving the deployment of 500 or more military personnel at any one time. These operations included noncombatant evacuation

operations, no-fly zone enforcement, humanitarian assistance, and peace enforcement operations.

In fiscal year 1999, U.S. military forces participated in a number of contingency operations, most notably in the Balkans and in Southwest Asia (SWA). In the Balkans, the United States continues to participate in the peace enforcement operation in Bosnia and U.S. forces became engaged first in military operations against the Federal Republic of Yugoslavia and its province of Kosovo and then in a peace enforcement operation in Kosovo. For purposes of this report, we refer to operations involving the Federal Republic of Yugoslavia, including Kosovo, as Kosovo operations. In SWA, U.S. forces enforced the no-fly zones over the northern and southern portions of Iraq in support of United Nations Security Council resolutions. Beginning in December 1998 and continuing to this day, the United States has also conducted a low level of air strikes against Iraq, first in support of United Nations weapons of mass destruction inspection efforts and then in response to Iraqi attempts to target allied aircraft enforcing the no-fly zones. U.S. forces were also engaged in several smaller operations, particularly the provision of humanitarian assistance in response to Hurricane Mitch in Central America. In March 1999, we reported to you on the scope of DOD's efforts in response to Hurricane Mitch and its cost.¹

¹ *Military Operations: DOD's Disaster Relief Assistance in Response to Hurricane Mitch* (GAO/NSIAD-99-122R, Mar. 29, 1999).

GAO Balkans and SWA Largest and Most Expensive Contingency Operations

- Balkans involve over 16,000 U.S. military personnel
 - In Bosnia 6,200 plus 1,700 support troops in nearby countries; in Kosovo 7,005 plus 1,500 support troops across the border in Macedonia
 - Costs total \$10.6 billion from 1992 through June 1999
 - SWA averages 15,000 - 20,000 personnel depending on level of tension with Iraq
 - Costs total \$6.2 billion from 1991 through June 1999
-

Since the end of the Persian Gulf War in 1991, two of the largest contingency operations involving U.S. military forces are in the Balkans and SWA. In the Balkans, the United States was first engaged in Bosnia and, beginning this year, in Kosovo. U.S. involvement in Bosnia began in July 1992 as part of humanitarian relief efforts in Bosnia and Herzegovina and Croatia. In April 1993, the United States began to participate in the North Atlantic Treaty Organization (NATO) enforcement of a no-fly zone over Bosnia and Herzegovina in support of United Nations peacekeeping. From

December 1995 through the present date, the United States has deployed military personnel in and around Bosnia to assist in implementing the General Framework Agreement (also known as the Dayton Agreement). U.S. forces are part of a multilateral coalition under NATO command. The number of U.S. military personnel in Bosnia has steadily declined, from about 18,000 in February 1996, to about 6,900 in October 1998, to about 6,200 troops in July 1999, and Americans held key leadership positions, including command of the operation. In addition to U.S. military personnel in Bosnia, there have been as many as several thousand U.S. military personnel stationed in the nearby countries of Hungary, Croatia, and Italy in support of Bosnia operations.

On March 24, 1999, the United States provided military forces in support of NATO military action against Yugoslavia following the failure of peace talks and escalating violence against ethnic Albanians in Kosovo. NATO called this action Operation Allied Force. It began on March 24, 1999, was suspended 78 days later on June 10, 1999, and officially ended on June 20, 1999. By late May 1999, about 39,000 U.S. military personnel drawn from all the military services were involved in the operation stationed at various locations throughout Europe. Following the signing of an agreement permitting the deployment of multinational forces, the withdrawal of Yugoslav troops, and United Nations endorsement of the plan, the United States began providing troops to the NATO-led Kosovo Force (KFOR), whose mission is peace enforcement in Kosovo. The United States is providing 7,005 troops. In addition, the United States will have 1,500 troops in Macedonia to operate a staging base for U.S. troops entering and departing Kosovo, which are not included in the KFOR troop total.

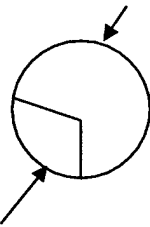
From the beginning of U.S. military involvement in the Balkans in 1992 through June 1999, DOD has reported \$10.6 billion in incremental costs. The bulk of these costs, about 83 percent, have been for operations in Bosnia, given their longer duration vis-à-vis the newer Kosovo operation.

U.S. forces have been involved in no-fly zone enforcement over parts of Iraq since the end of the Persian Gulf War. The size of the U.S. force involved varies substantially depending on the level of tension with Iraq. The Congressional Research Office reports that during the mid-1990s, U.S. forces in the Persian Gulf region on average comprised 15,000 to 20,000 personnel, many of them Navy and Marine Corps personnel embarked on ships. In May 1999, force levels were at about 18,500. From the end of the Persian Gulf War in 1991 through June 1999, DOD has reported \$6.2 billion in incremental costs for SWA operations.

GAO Relative Contribution of U.S. Aircraft and Forces to NATO's Kosovo Operations

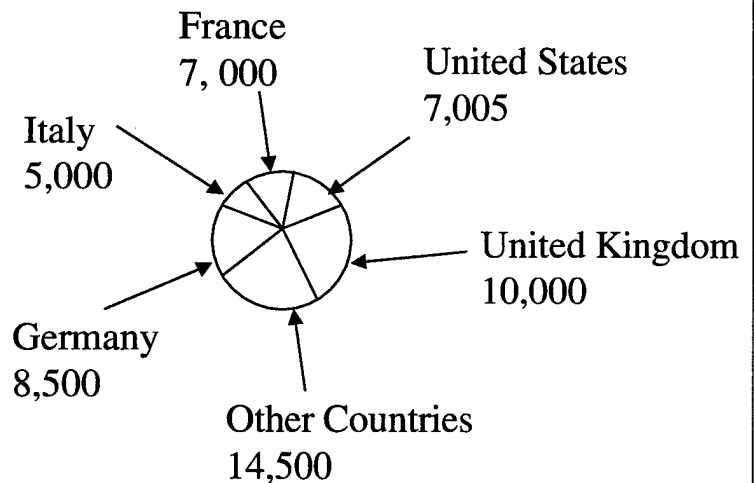
Air Campaign

U.S. Aircraft - 720



Other NATO
Aircraft - 325

KFOR



The United States has been a major force provider in the Balkans. In Bosnia, U.S. military personnel comprise about 20 percent of the NATO-led force as of July 1999 (6,200 of 30,000). In the air campaign involving Kosovo, the United States provided the lion's share of aircraft, about two-thirds of the aircraft used at the end of the campaign. On June 2, 1999, DOD reported that in addition to the United States, 13 nations were providing aircraft for the campaign, with the United States contributing 720 aircraft and other nations contributing a total of 325 aircraft. Unlike the

air campaign, the United States is providing a much smaller portion of forces for KFOR, about one-seventh, or 7,005 of an estimated force of 50,000, when deployment is complete. The United Kingdom will be the largest troop-contributing nation, with about 10,000 troops. One of its generals is the KFOR commander.

Within NATO, each nation participating in military operations assumes the cost of its own operations. NATO refers to this practice as "letting costs lie where they fall." NATO does not provide estimates of the overall cost of the operation or of the cost of each member's contribution. All NATO members contribute to NATO common costs, which are paid through NATO's military budget and its infrastructure budget. In the Balkans, the military budget pays for headquarters costs, including facility rental and maintenance, office supplies and furniture, vehicles, and travel; the infrastructure budget pays for new construction, theater-wide communications, initial procurement of automated data processing equipment, and theater-wide infrastructure. At the current NATO membership level of 19 nations, the United States' assigned contribution is 23.15 percent of the military budget and 22.333 percent of the infrastructure budget. NATO's Bosnia military budget for calendar year 1999 is an estimated \$36.7 million; its infrastructure budget an estimated \$48 million. NATO budgets on a calendar year basis rather than the fiscal year basis used for U.S. budgets. The U.S. share of the military budget is about \$8.6 million; its share of the infrastructure budget is about \$10.8 million. For Kosovo-related operations, NATO's military budget is estimated at \$68.9 million, of which the U.S. share is about \$16 million. Estimates are not available yet for the infrastructure budget. The U.S. share is paid out of DOD's budget and is part of DOD's incremental cost of Balkans operations.

GAO DOD Fiscal Year 1999 Contingency Cost Overview

Dollars in Millions

	<u>Reported Cost Through June</u>	<u>Estimated Cost for Fiscal Year 1999</u>
Air Force	\$1,552	\$ 2,345
Army	1,923	3,192
Navy/Marine Corps	428	457
Service Subtotal	<u>\$3,903</u>	<u>\$5,994</u>
DOD Agencies	117	N/A
DOD Total	\$4,020	N/A

DOD tracks the "incremental costs" of participation in contingency operations. As used in this report, "incremental costs" means those costs that would not have been incurred if it were not for the operation. Examples of incremental costs include (1) special payments to participating military personnel, such as imminent danger pay; (2) transportation costs to deploy personnel and equipment to the area of operations; (3) contractor support for deployed forces; and

(4) redeployment and reconstitution, including repair of equipment used in the operation.

Through June 1999, DOD reported \$4 billion in incremental costs for all contingency operations in which U.S. military forces have been involved in fiscal year 1999. The large majority of these costs—98 percent—were incurred in the Balkans and SWA. DOD prepares monthly contingency operations cost reports, the most recent of which is the report of costs incurred through June 1999. The cost reports include costs associated with the deployment of forces; their sustainment, including contractor support; operating tempo; special pays and allowances for which deployed military personnel are eligible; the pay of mobilized reservists; and redeployment of U.S. forces and reconstitution of equipment used in the operations.

DOD's latest year-end estimate for fiscal year 1999 contingency operations is about \$6 billion for the military services, compared with the \$3.9 billion the services reported through June 1999. Reported costs through June represent 65 percent of the services' full year estimate. As costs associated with the conclusion of the Kosovo air campaign and U.S. participation in peace enforcement in Kosovo are incurred, reported costs will increase. However, as will be discussed later, costs are likely to be lower than estimated.

Among the services and DOD agencies, the Army, which has had soldiers in Bosnia since the beginning of the fiscal year and has now deployed soldiers to Kosovo, reported the largest costs for fiscal year 1999 contingency operations through June—49 percent of the services' total. Air Force costs represented 40 percent of the services' total and Navy and Marine Corps costs were 11 percent of the total. The remaining costs are for DOD agencies involved in contingency operations, which are spread over a number of defense-wide agencies, such as the U.S. Special Operations Command and the Defense Information Systems Agency. Costs reported by these agencies through June 1999 represent a much smaller portion of overall DOD costs—only 3 percent of the DOD total. Year-end estimates for these DOD agencies were not available at the time of our review.

GAO Fiscal Year 1999 Funding for Contingency Operations

Dollars in Millions

	<u>Military Personnel</u>	<u>O&M</u>	<u>Munitions</u>	<u>Readiness/ Munitions Contingency</u>	<u>Rapid Response Fund</u>	<u>Total</u>
Bosnia	\$342	\$1,416	0	0	0	\$1,758
SWA	134	1,152	\$177	0	0	1,463
Kosovo	441	3,196	521	\$1,100	\$300	5,558
Total	\$917	\$5,764	\$698	\$1,100	\$300	\$8,779

DOD budgets for the cost of ongoing contingency operations and Congress includes funds for ongoing operations in the annual defense appropriations acts. In the case of new or expanded operations, such as the operations involving Kosovo and the late 1998 attacks against Iraq, costs have not been budgeted in advance and the services generally borrow funds that they planned to spend later in the fiscal year. If these funds are not replenished through supplemental appropriations or reprogramming of previously appropriated funds, then the services have to cancel planned activities.

DOD has received about \$8.8 billion for contingency operations during fiscal year 1999. Funding came from several sources: (1) a carry forward of \$343 million remaining in the Overseas Contingency Operations Transfer Fund (OCOTF) from prior year appropriations; (2) \$439 million for the OCOTF from the fiscal year 1999 DOD Appropriations Act;² (3) \$1,859 million in supplemental appropriations contained in the Omnibus Consolidated and Emergency Supplemental Appropriations Act for Fiscal Year 1999,³ enacted in October 1998; and (4) \$6 billion in supplemental appropriations enacted in May 1999.⁴ In addition, according to Office of the Secretary of Defense (OSD) (Comptroller) officials, \$119.8 million from the fiscal year 1999 DOD Appropriations Act was allocated by DOD for military personnel in SWA. The Secretary of Defense transfers funds from the OCOTF to the services for expenses related to overseas contingency operations as operations unfold during the year. The bulk of fiscal year 1999 contingency operation funding, \$7.3 billion, was placed in the OCOTF, with most of the remainder appropriated directly to the services' appropriation accounts. Funds remaining in the OCOTF at the end of a fiscal year can be carried forward to the next fiscal year.

Part of the above funding was provided following an April 1999 request by the President for \$5.5 billion in additional supplemental funding for DOD operations involving Kosovo and SWA. The President's request included funding for air operations, military personnel costs, munitions, and humanitarian assistance. After receiving this request, Congress appropriated not only the \$5.5 billion requested, but also an additional \$550 million for critical readiness or sustainability needs, including replacement of expended munitions, and for a special Operational Rapid Response Transfer Fund,⁵ which will be discussed later in this report. While the President requested that almost all the funds be placed in the OCOTF for subsequent transfer to the services and Congress appropriated a large portion of the funds accordingly, Congress also appropriated some funds directly to the services' appropriations accounts and to the new Operational Rapid Response Transfer Fund.

² Pub. L. 105-262, Oct. 17, 1998, 112 Stat. 2279 at 2284.

³ Pub. L. 105-277, Oct. 21, 1998, 112 Stat. 2681 at 2681-556.

⁴ Pub. L. 106-31, May 21, 1999, 113 Stat. 57 at 76-78.

⁵ Pub. L. 106-31, May 21, 1999, 113 Stat. 57 at 78.

Almost two-thirds of the \$8.8 billion in contingency operations funding was for operation and maintenance, normally the largest cost category. Operation and maintenance funds are used for a wide variety of purposes, including transportation of personnel, goods, and equipment; unit operational tempo (fuel and repair parts); and intelligence, communications, and logistics support. About 20 percent of the funding was for munitions replenishment, reflecting the air campaign involving Kosovo and the air strikes in SWA, and for other critical readiness or sustainability needs. These funds were split between direct appropriations to the services' procurement accounts and a contingent appropriation for readiness and munitions that was included in the OCOTF. Just over 10 percent of the available funding was for military personnel accounts, which fund the pay and allowances of mobilized reservists and special payments or allowances for all qualifying military personnel, such as Imminent Danger Pay (\$150 per month) and Family Separation Allowance (\$75 per month).

Fiscal Year 1999 Cost and Funding for Balkans Operations

GAO GAO Projection of Funding Adequacy for Kosovo Operations by Cost Category

<u>Cost Category</u>	<u>Funded</u>	<u>Potential Cost Increase</u>	<u>Potential Cost Decrease</u>
Air Operations	X		X
Peace Enforcement		X	
Redeployment/ Reconstitution		X	
Humanitarian	X		X
Munitions	X	No change	
Readiness/Munitions Contingency	X	No change	
Rapid Response Transfer Fund	X	No change	

As discussed earlier, Congress provided supplemental funding in May 1999 for U.S. military operations involving Kosovo as well as heightened military operations in SWA. In developing its budget for Kosovo operations, which served as the principal basis for the President's supplemental funding request, DOD included estimates for air operations, military personnel costs, munitions replenishment, and humanitarian assistance. The budget was designed to ensure that military forces had sufficient resources to sustain the high operating tempo of the air campaign through the end of the

fiscal year. DOD estimated that military operations, including air operations and military personnel costs, would be \$3,301 million. It further estimated that \$1,548 million would be needed to replenish munitions already expended and create a readiness/munitions contingency reserve for additional munitions that would be expended as the air campaign continued. Humanitarian assistance was estimated at another \$335 million.

Accurately estimating the cost of contingency operations, particularly those involving uncertain situations such as the one in Kosovo, is difficult. DOD has to make assumptions about a variety of factors, such as the duration of operations. Events, however, may differ from the assumptions. In developing the Kosovo estimate, DOD assumed that air operations would continue through the end of the fiscal year, and there was no peace agreement at the time the estimate was being prepared. DOD, therefore, did not include funding for peace enforcement and redeployment and reconstitution of forces engaged in the air campaign in its fiscal year 1999 estimate.

The approved supplemental funding contained resources within the OCOTF for the Presidential call up of a large number of reservists and the special payments and allowances for which deployed personnel were eligible, air operations in and around the Federal Republic of Yugoslavia, humanitarian relief efforts for Kosovo refugees, and a contingent appropriation for readiness and munitions to prevent any degradation in readiness of U.S. forces in the Balkans and around the world as operations continued through the fiscal year. The supplemental also placed funds in procurement accounts for the restoration of inventory levels of munitions and in an Operational Rapid Response Transfer Fund to support specific requests from U.S. regional commanders for the accelerated acquisition and deployment of military technologies and systems needed for the conduct of Operation Allied Force, or to provide substitute or replacement systems for other theaters to replace assets diverted as a result of Operation Allied Force, NATO's name of the operation.¹

With the termination of Operation Allied Force in mid-June 1999 and the subsequent redeployment of assets, DOD costs for some of the funded categories should be lower than anticipated because estimates were premised on air operations continuing through the end of the fiscal year at a high operating tempo. Consequently, remaining balances from funded

¹ Pub. L. 106-31, May 21, 1999, 113 Stat. 57 at 78.

Briefing Section II
Fiscal Year 1999 Cost and Funding for
Balkans Operations

categories that have costs lower than their budgeted level should be more than sufficient to offset the costs associated with peace enforcement and the redeployment and reconstitution of forces involved in Operation Allied Force, which were not included in the appropriation. As a result, a portion of these funds are likely to remain at the end of the fiscal year to apply toward fiscal year 2000 funding requirements.

Briefing Section II
Fiscal Year 1999 Cost and Funding for
Balkans Operations

GAO Air Operations Costs

- Budget request assumed air operations would continue through end of fiscal year at high operating tempo
 - Air campaign ended June 20, 1999, and most deployed aircraft returned to home station
 - Air support will be needed for peace enforcement; details yet to be determined
 - Net air operations cost should be much lower than estimated
-

DOD's cost estimate included \$3.3 billion for air operations involving Kosovo as well as for the Kosovo Diplomatic Observer Mission and the air verification mission, two smaller operations involving monitoring events in Kosovo from late 1998 through early 1999, both of which ended shortly before the air campaign began. In support of NATO's air campaign, DOD committed approximately 600 aircraft at the time the supplemental funding request was submitted and planned to deploy up to an additional 300 aircraft. Near the end of the air campaign, about 720 aircraft had deployed. These aircraft initially came from units forward stationed in Europe, with most of the additional aircraft coming from the continental United States. In developing the cost estimate, a high operating tempo was anticipated through the remainder of the fiscal year. Deployed aircraft included Air Force aircraft at air bases throughout Europe, Navy aircraft operating from the aircraft carrier stationed in the region, land-based Navy and Marine Corps aircraft, and Army Apache attack helicopters.

The NATO air campaign was officially terminated on June 20, 1999, and the next day the Secretary of Defense authorized the Allied Force commander to begin redeploying more than 300 aircraft to their home stations in the United States and Europe. On June 25, 1999, the Secretary of Defense authorized the redeployment of a second increment of 315 U.S. aircraft. Through June 1999, DOD reported \$1.3 billion in operations costs for Kosovo air operations or about 38 percent of the initial \$3.3 billion estimate. Consequently, the early termination of the air campaign will result in estimated air operations costs being much lower than anticipated. In discussing our analysis with the Office of the Secretary of Defense (OSD) (Comptroller), a senior OSD (Comptroller) official agreed that enough funds are available from the supplemental funding initially budgeted for air operations to fund fiscal year 1999 KFOR operations as well as redeployment and reconstitution costs and fiscal year 2000 reconstitution costs and that a small amount of funds, \$62 million, would remain at the end of the fiscal year.

Some aircraft are being retained in theater to provide continued air support for KFOR. Also, according to U.S. European Command officials involved with Operation Allied Force, air support was being restructured to support Balkan operations in Bosnia and Kosovo. At the time of our visit, the details had not yet been finalized.

GAO Peace Enforcement Costs

- Budget did not include KFOR costs, estimated at \$1.2 billion for fiscal year 1999
 - Army predominant U.S. force provider; cost estimated at \$924 million
 - \$273 million estimated for Navy/Marine Corps, Air Force, and other DOD agencies
 - Funding need critical, since now in fourth quarter of fiscal year and funding flexibility is limited
 - OSD provided an interim distribution of \$500 million in July to Army for KFOR
-

As Yugoslav forces withdrew from Kosovo, NATO forces began peace enforcement operations. KFOR was established to create the secure conditions for the rebuilding of Kosovo, the re-establishment of law and order, the safe return of refugees to their homes, social and economic reconstruction, and the full investigation of all war crimes and atrocities. The United States committed 7,005 personnel as part of the estimated 50,000 troops that will comprise KFOR. Another 1,500 U.S. military personnel will be in Macedonia in support of the U.S. forces serving as part

of KFOR. The United States is responsible for one of five sectors established in Kosovo, with the United Kingdom, Germany, France, and Italy operating the others. Forces from many other countries are also involved with this peace enforcement effort.

Initially, about 4,800 soldiers and Marines provided the first U.S. presence. These initial forces have been replaced by U.S. Army troops from the 1st Infantry Division, based in Germany. Estimates for KFOR operations during fiscal year 1999 total \$1.2 billion. The Army, which is providing the large majority of KFOR forces, estimates its costs in support of Kosovo peace enforcement through September 1999 at \$924 million. The remainder of the estimated costs includes \$88 million for the Navy/Marine Corps, \$86 million for the Air Force, and \$99 million for other Defense agencies. The corresponding DOD funding requirement is \$41 million less than the cost estimate because DOD estimates that the services will not incur some normal home station costs as a result of their participation in KFOR. For June 1999, the first month of the KFOR operation, DOD reported \$350 million in costs. DOD did not include any cost estimates for providing forces to KFOR in its April 1999 supplemental request because it did not know when the conflict would end at the time it developed the supplemental request.

Considering the magnitude of the estimated KFOR costs coupled with the fact that the operation is now in the last quarter of the fiscal year, the Army's funding need for this force is critical. According to officials at U.S. Army Europe, which will incur the bulk of the costs, funding flexibility is very limited because the fiscal year is drawing to a close. This makes it difficult if not impossible to borrow funds planned to be spent later in the fiscal year. OSD (Comptroller) is aware of the situation and in July provided an interim distribution of \$500 million from the OCOTF to finance KFOR.

GAO Redeployment/Reconstitution Costs

- Supplemental did not include funds for redeployment and reconstitution
 - Services estimating \$351 million
 - Air Force \$275 million
 - Army \$61 million
 - Navy \$15 million
 - Given short duration of operation estimates appear high
 - An additional \$175 million in reconstitution costs estimated for fiscal year 2000
-

DOD's supplemental request for Kosovo and SWA operations did not include any redeployment and reconstitution costs. Redeployment costs include the transportation costs associated with returning personnel and equipment to their home station. Reconstitution costs include the cost to clean, inspect, maintain, replace, and restore equipment to the required condition at the conclusion of the contingency operation. Kosovo operations were assumed to continue at a high rate through the end of the fiscal year. Since the air campaign terminated in June, many of the aircraft

and associated personnel have returned to their home stations. As such, redeployment and reconstitution costs are being incurred during fiscal year 1999.

The services are estimating reconstitution and redeployment costs of \$351 million for fiscal year 1999. The Air Force's redeployment and reconstitution cost estimate is the highest, \$275 million. It consists of temporary duty pay, spare parts, flying hours for redeployment, and reconstitution costs. Of this amount, the Air Force estimated \$46 million in redeployment costs and over 600 of the aircraft involved in the air campaign have already returned to home station. The Army has the second largest cost estimate for redeployment and reconstitution, \$61 million. The Army estimated \$20 million for redeploying the 5,500 personnel and support equipment associated with the Apache helicopters and multiple-launch rocket systems and \$41 million for reconstitution. Redeployment is ongoing and its planned completion was mid-August 1999. The Navy has the smallest cost, \$15 million, for the redeployment of EA-6B, F/A-18, and P-3 aircraft. For the most part, naval ships and aircraft used in the Kosovo operation were the naval forces normally forward deployed as part of normal peacetime presence. The Navy did not estimate any reconstitution costs for fiscal year 1999 and estimates \$4 million for fiscal year 2000. OSD (Comptroller) cost estimates also include \$175 million in additional Air Force reconstitution costs in fiscal year 2000.

We believe reconstitution estimates may be high for several reasons: (1) the air campaign lasted only 78 days, (2) the buildup occurred over more than a month so not all aircraft were used for the full duration of the air campaign, and (3) the Army's Apache helicopters only engaged in training for combat operations and trained for a shorter period of time than the 78 days of the air campaign.

GAO Humanitarian Costs

- DOD planned to build three refugee camps in Albania
 - Only one was completed before refugees began returning to Kosovo
- Through June 1999, DOD reported \$97 million of \$335 million that was budgeted had been spent
- DOD estimates up to \$76 million in additional humanitarian costs
- DOD may have up to \$162 million to finance other operational needs

DOD requested and Congress included \$335 million in the 1999 emergency supplemental appropriation to provide refugee relief to displaced Kosovars as part of the funds placed in the OCOTF.² Through June 1999, DOD has reported that it spent \$97 million in humanitarian assistance. Funds

² Pub. L. 106-31, May 21, 1999, 113 Stat. 57 at 76-77.

distributed through the OCOTF were used for camp construction, refugee relief, and other humanitarian purposes. Considerably less money has been spent on refugee relief because the conflict in Kosovo ended much sooner than anticipated and refugees began returning to their homes in June 1999. DOD plans called for construction of three tent camps to be built in Albania as temporary housing for the Kosovar refugees. However, only one camp was completed, although additional costs were incurred for the second and third camps even though they were not built. These costs consisted of site preparation at the second camp and tents for both the second and third camps.

According to an OSD (Comptroller) official, up to an additional \$76 million may be needed in humanitarian assistance costs. Of this amount, \$36 million is for the redeployment of Air Force personnel providing humanitarian support, \$10 million is the U.S. share of NATO common costs for humanitarian assistance, and from \$10 to \$30 million is the amount estimated to clean up unexploded ordinance in Kosovo. This official said that DOD will continue to consider humanitarian requirements identified by the interagency community, including the State Department, and will fund those requirements if sufficient legal authority and funding exist. OSD (Comptroller) continues to view all the humanitarian funds as dedicated to additional humanitarian requirements. However, if no such requirements arise, DOD may have up to \$162 million to finance other contingency operations costs. In fact, a July 1999 United Nations High Commissioner for Refugees initial survey concluded that 40,000 to 50,000 homes in Kosovo were uninhabitable and that organization is providing assistance to start emergency repairs and has plans for assistance to make homes winter-proof. On August 31, 1999, the United Nations reported that measures to repair structures in Kosovo and to place people in temporary housing should ensure winter shelter for all of the nearly 700,000 people whose homes have been damaged or destroyed. This suggests that there may be few additional humanitarian requirements to which DOD will be asked to respond.

GAO Munitions Costs

- DOD requested and Congress appropriated funds to restore munitions levels and in some instances increase overall production levels
 - All funds have been distributed to services
-

Munitions usage in air attacks involving Kosovo and SWA resulted in the depletion of the Navy's and the Air Force's inventories of several types of preferred munitions and a need to immediately replenish them rather than wait until the fiscal year 2001 budget process. The munitions involved were the Navy's Tomahawk Land-Attack Missile and the Air Force's Conventional Air Launched Cruise Missile, Joint Direct Attack Munition, which adds more precision capability, and towed decoys, which are used against radar guided missiles. To replenish and in the case of the Joint Direct Attack

Munition and towed decoys to increase production levels, DOD requested and Congress appropriated \$698 million.³ Of this amount, \$521 million was requested for munitions expended in Kosovo operations and \$177 million for munitions expended in SWA operations. Congress also appropriated an additional \$1.1 billion as a readiness and munitions contingency amount to ensure that the inventory of critical munitions remains adequate for future operations and that U.S. force readiness remains high, which is discussed later in this report.

As of June 1999, all of the \$698 million appropriated for munitions replenishment had been distributed by OSD (Comptroller) to the services. The Navy received \$444.7 million for its Tomahawk Land-Attack Missiles and the Air Force received \$253.2 million to replenish Conventional Air Launched Cruise Missiles and increase production of the Joint Direct Attack Munition and Air Force towed decoys.

³ Of the \$698 million, \$684 million was directly appropriated to the services' procurement accounts. According to OSD (Comptroller) records, the remaining \$14 million was placed in the OCOTF for the purpose of Tomahawk Land-Attack Missile recertifications. See Pub. L. 106-31, May 21, 1999, 113 Stat. 57 at 76-78.

GAO Contingent Readiness and Munitions Costs

- Congress provided an additional \$1.1 billion for critical readiness or sustainability needs, including maintaining adequate munitions inventories
 - Use of the fund requires Presidential notification and designation as an emergency requirement
 - President expected to transmit a budget request soon
-

In addition to the \$698 million directly appropriated to the services for munitions replenishment, Congress appropriated an additional \$1.1 billion as part of the May 1999 supplemental appropriation in what it termed a contingent emergency appropriation for readiness and munitions. This amount, included in the OCOTF, was to be available to meet critical readiness and sustainability needs, including to replace other munitions that were expected to be expended in the course of combat operation so that adequate inventories would be maintained for future operations. Use

of this amount requires Presidential notification to Congress that specifies specific items which meet a critical readiness and sustainability need and designates the amount as an emergency requirement.

In written comments on a draft of this report DOD stated that the Commanders in Chief of the Unified Commands and the Military Departments have identified requirements for critical readiness or sustainability items that greatly exceed the funding available in the OCOTF. DOD further stated that the Joint Requirements Oversight Council had evaluated the requests and validated requirements in excess of the \$1.1 billion. DOD described these requirements as consistent with Congress' intended use of the funds and that it expects the President will soon transmit an official budget request that designates a significant portion of these funds as emergency. Consequently, DOD concluded that these funds will not be available for fiscal year 2000 requirements. Given that the President is expected to soon transmit a budget request, we have excluded the \$1.1 billion from our calculations. If the President's submission involves less than the full \$1.1 billion, the difference may become available to help fund other requirements.

GAO Operational Rapid Response Transfer Fund

- \$300 million appropriated for accelerated acquisition and deployment of military technologies and systems needed for air campaign or to provide substitute or replacement systems for those diverted from other regional commands
 - DOD has distributed the \$300 million; \$40 million to replace destroyed equipment; \$260 million for equipment enhancements that would improve capability to participate in Kosovo and other operations
-

In addition to other amounts appropriated in the 1999 emergency supplemental appropriations for military operations involving Kosovo, Congress appropriated \$300 million to a new appropriations account, the Operational Rapid Response Transfer Fund. The funds are available for obligation until September 30, 2000, but can only be obligated after recommendations by the Joint Requirements Oversight Council to the Secretary of Defense for his approval and the President's designation as emergency. The appropriations legislation states that the funding in this

account is available only for the accelerated acquisition and deployment of military technologies and systems needed for the conduct of Operation Allied Force, or to provide accelerated acquisition and deployment of military technologies and systems as substitute or replacement systems for other regional commands that had assets diverted as a result of Operation Allied Force.⁴

Many U.S. military assets were deployed to Europe to meet the demands of Operation Allied Force. In many instances this diverted capabilities and forces from other regional commands, which have their own operational requirements, such as those of the U.S. Central Command involving Iraq. Because of these deployments and the uncertain duration of the operation involving Kosovo, the House Committee on Appropriations recommended, and Congress included, this additional funding because there were several broad, high-leverage operational categories in which assets are in short supply or deficient, but which could be used to great effect if such assets were made available in sufficient numbers for Operation Allied Force.⁵ These included tactical airborne electronic warfare and surveillance; tactical imagery and signals intelligence reconnaissance (particularly systems that can loiter over engagement areas such as unmanned aerial vehicles) and related communications data links that can rapidly disseminate information; and tactical communications systems in general. Some of these unmanned aerial vehicles were lost during Operation Allied Force.

According to an OSD (Comptroller) official, the early termination of the air campaign will not affect their ability to use money from this transfer fund. The services and defense agencies submitted their priority needs to the Joint Requirements Oversight Council, which in turn on July 7, 1999, forwarded its approved list of needs to the Secretary of Defense for approval. On July 29, 1999, the President requested the funds and designated the request as an emergency requirement. The President stated that the funds will be used to acquire and replace equipment needed for operations in Kosovo. In written comments on a draft of this report, DOD stated that the \$300 million appropriated to the Operational Rapid Response Transfer Fund has been apportioned and allocated to the military departments for execution and that these funds will be obligated shortly.

⁴ Pub. L. 106-31, May 21, 1999, 113 Stat. 57, pp. 78-79.

⁵ See H.R. Report 106-125, May 4, 1999, pp. 8-9.

**Briefing Section II
Fiscal Year 1999 Cost and Funding for
Balkans Operations**

Our analysis indicates that about \$40 million of the distribution appears to be intended to replace equipment destroyed during combat operations and for related costs, specifically some unmanned aerial vehicles, and about \$260 million appears to be enhancements to existing equipment that would improve U.S. military capability to participate in contingency operations, including in Kosovo. However, no mention has been made of replacing other lost equipment, specifically the one F-117 combat aircraft that was shot down during the air campaign and is no longer in production and the two Apache attack helicopters lost in training accidents while preparing to undertake combat operations.

Briefing Section II
Fiscal Year 1999 Cost and Funding for
Balkans Operations

GAO Status of Bosnia Cost and Funding

- \$1,758 million in funding provided to the services and defense agencies for fiscal year 1999 costs
- Current cost estimate is \$1,593 million
- Based on current estimates, \$165 million may be left after covering costs
- Most of the \$165 million was placed in the services military personnel appropriations accounts; authority to obligate these funds expires at the end of fiscal year 1999

During fiscal year 1999, DOD allotted \$1,758 million from its appropriations to conduct operations in Bosnia. As discussed earlier, Congress provided funds for the OCOTF for ongoing contingency operations, including Bosnia, in an emergency supplemental appropriation since no funds were appropriated in DOD's fiscal year 1999 annual appropriations legislation. Of the total, DOD programmed \$1,416 million from the OCOTF for Bosnia and the remaining \$342 million was transferred to the services' military personnel accounts, as directed by Congress. OSD transferred all of the

funds that were placed in the OCOTF primarily to the services operation and maintenance and military personnel appropriation accounts.

In late July 1999, OSD (Comptroller) developed a revised estimate for the cost of Bosnia operations for the fiscal year, which reflected a decline in expected costs to about \$1,593 million. The reduced estimate reflects changes in the operation that have resulted in an expectation of lower overall costs. Our analysis of the revised cost estimate indicated that the key change in the estimate was a reduction in the Army's military personnel costs. Within the services' operations costs, the Army's costs rose slightly and an increase in Air Force costs was more than offset by a decline in Navy costs. If actual costs for the balance of the fiscal year closely track DOD's revised cost estimate, the services would have received \$165 million in funds that were in excess of their costs.

Most of this funding, \$161 million of the \$165 million, was in military personnel costs, which, as noted above, was transferred to the services military personnel appropriations accounts. Funds appropriated to the military personnel accounts are only available for use in the year for which they are appropriated and any funds remaining at the end of that year can no longer be obligated. Therefore, if any funds remain unused at the end of the fiscal year they would no longer be available for obligation and so would not be available to apply toward a subsequent year's funding requirements. The remaining \$4 million reflects operation and maintenance funds above current estimates and according to an OSD (Comptroller) official is factored into DOD's calculation of funds that will be available to apply to fiscal year 2000 funding requirements.

Fiscal Year 1999 Cost and Funding for Southwest Asia Operations

GAO Status of Southwest Asia Cost and Funding

- \$1,287 million in funding transferred to the services and defense agencies for fiscal year 1999 exclusive of munitions replenishment
- Based on current estimates, military personnel cost have increased by \$120 million while operation and maintenance costs have declined by \$76 million
- Services absorbing increased military personnel costs, making the \$76 million in operations costs available for other operations

During fiscal year 1999, SWA funding has totaled almost \$1,287 million, excluding munitions replenishment funding, which, as discussed earlier, was provided separately. The bulk of this funding, \$1,152 million, was in the OCOTF and most of it was subsequently transferred to the services and defense agencies based on their cost experience. The remaining

Briefing Section III
Fiscal Year 1999 Cost and Funding for
Southwest Asia Operations

\$134 million¹ was directly appropriated or transferred to the services' military personnel accounts. Currently, SWA estimated costs and funding status present a mixed picture. There has been a \$120 million increase in military personnel costs, primarily involving the Air Force, and a \$76 million excess in funds originally intended to cover operation and maintenance costs. OSD (Comptroller) officials assume that the services can absorb the increased military personnel costs within their existing military personnel funding because as of August 30, 1999, the services had not requested any additional funds. Consequently, OSD (Comptroller) plans to use the \$76 million excess in funds related to operation and maintenance costs to help fund other contingency operations.

¹ Totals do not add due to rounding.

Funding Status for Fiscal Years 1999 and 2000

GAO Net Change in Contingency Operations Costs

Dollars in Millions

<u>Contingency Operation</u>	<u>Cost Category</u>	<u>Potential Decrease</u>	<u>Potential Increase</u>	<u>Net Change</u>
Kosovo	Air Operations	\$1,745		
	KFOR		\$1,157	
	Redeployment/ Reconstitution		351	
	Humanitarian relief	162		
	Munitions	---	---	
	Contingency reserve	---	---	
	Rapid Response Transfer Fund	---	---	
	Subtotal	<u>\$1,907</u>	<u>\$1,508</u>	<u>(\$399)</u>
Bosnia	Bosnia	---	---	
Southwest Asia	Southwest Asia	76		(76)
Total		<u>\$1,983</u>	<u>\$1,508</u>	<u>(\$475)</u>

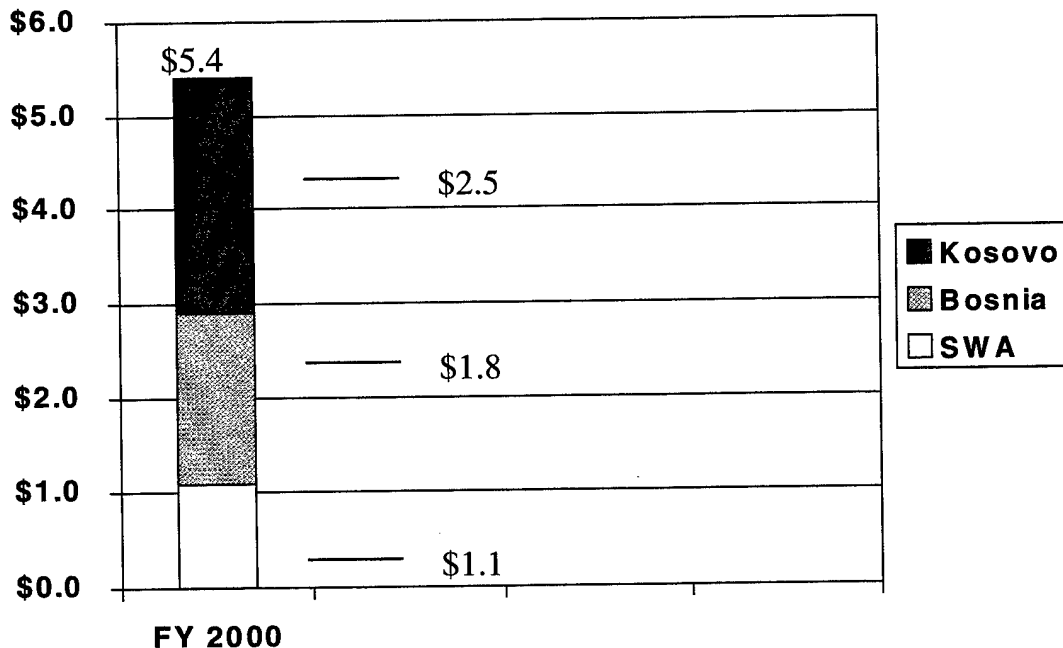
As discussed throughout this report, as the operations in the Balkans and SWA have changed, the costs associated with those operations have also changed. In some instances, such as in the case of Kosovo air operations, costs have declined substantially with the earlier than expected conclusion of the air campaign. Bosnia costs have declined from earlier estimates used in developing funding levels as operational changes have occurred. In other instances, such as U.S. participation in KFOR, funds were not included in the budget and therefore all U.S. KFOR costs were unfunded.

Cost estimates are being revised and cost reports are only available through June 1999. As a result, it is not possible to detail the net change in costs and the resulting implications for funding with precision. It is, however, possible to provide a broad estimate of the possible net change based on the currently available data. We project that costs for budgeted contingency operations activities have decreased by \$1,983 million and that there are \$1,508 million in unbudgeted costs. This leads us to conclude that DOD can cover the fiscal year 1999 unbudgeted costs of KFOR and redeployment and reconstitution costs within previously appropriated contingency operations funds. We have also concluded that as much as \$475 million in funding provided for fiscal year 1999 contingency operations would be available to be applied to fiscal year 2000 funding requirements.

Cost decreases involve Kosovo combat operations, humanitarian assistance, and SWA operations costs. Cost increases involve KFOR costs and the redeployment and reconstitution costs associated with returning aircraft, other equipment, and personnel involved in the Kosovo air campaign to their home stations. DOD agrees that there are sufficient funds for fiscal year 1999 costs, but in written comments on a draft of this report stated that only \$138 million will be available to apply to fiscal year 2000 requirements. The difference between DOD's and our estimate is \$337 million. It consists of (1) \$162 million in remaining humanitarian funds that are dedicated to future humanitarian needs and (2) \$175 million in estimated reconstitution costs that DOD expects will occur in fiscal year 2000. In discussing the \$175 million in estimated fiscal year 2000 reconstitution costs with DOD officials, they agreed that the \$175 million will not have been distributed to the services by the end of fiscal year 1999. These officials also noted that they do not intend to include that amount in their fiscal year 2000 budget request for Kosovo operations, which is still being developed because they view fiscal year 2000 reconstitution costs associated with the air campaign as covered in their current air campaign cost estimates and planned funds use.

GAO Fiscal Year 2000 Cost Outlook

Dollars in Billions



Fiscal year 2000 contingency operations costs are likely to exceed \$5 billion. The President's budget for DOD in fiscal year 2000, submitted to Congress in February 1999, includes \$1.8 billion for ongoing Bosnia-related operations and \$1.1 billion for SWA operations at the force level and operating tempo in place the previous September. Since there was no KFOR at the time the budget was submitted, no funds were included for it. OSD has not finalized its KFOR estimate yet, but its initial estimate is that the cost will be at least \$2.5 billion. It also expects SWA costs to rise due to

the increased level of assets and personnel deployed since late last year, while Bosnia costs may decline due to the reduction in the number of U.S. forces below 6,200 and an overestimation of Army Reserve personnel needs. As just discussed, there may be funds remaining in the OCOTF at the end of fiscal year 1999 that would be carried over and could help fund fiscal year 2000 requirements. Both the House¹ and Senate² DOD appropriations bills for fiscal year 2000 contain reductions in appropriations to the OCOTF, \$575 million in the House bill and \$300 million in the Senate bill. The House Appropriations Committee report³ described the reduction as related to the termination of air operations over Kosovo and reduced air operations tempo over SWA. The Senate Appropriations Committee report⁴ described the reduction as related to concerns about how money appropriated to the OCOTF is being spent and the reduction in personnel supporting operations in Bosnia.

¹ H.R. 2561, July 20, 1999.

² S. 1122, May 25, 1999.

³ H.R. Report 106-244, July 20, 1999, p. 111.

⁴ S. Report 106-53, May 25, 1999, p. 38.

Comments From the Department of Defense



COMPTROLLER

UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100



SEP 7 1999

Mr. Mark E. Gebicke
Director, National Security and Preparedness Issues
National Security and International Affairs Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Gebicke:

Thank you for the opportunity to review and respond to the draft GAO report "Military Operations: Costs for Fiscal Year 1999 Contingency Operations are Substantially Below Funded Levels," (GAO Code 701158), OSD Case 1878. I am very concerned that the report, by headlining a \$2 billion figure, significantly overstates the amount of funds that could be applied to finance unbudgeted FY 2000 contingency costs. It is essential that the Military Departments are fully funded for contingency operations. Providing less than the full amount will adversely affect military readiness. The Department is using the funds appropriated for FY 1999 contingency operations for the purposes directed by the Congress. As a result, only \$138 million will be available to apply to FY 2000 requirements as evidenced by the detail provided in the following paragraphs.

First, the report assumes the cost report for Noble Anvil through the end of June represents the total cost of the air campaign. The Department disagrees with this assessment because there is a time lag between recording obligations and their inclusion in the cost report. The June cost reports are out of date. The Military Departments and Defense Agencies have all updated their cost estimates. We would encourage you to use the most recent and accurate estimates of the air campaign costs.

Second, the report assumes that uncommitted funds set aside for refugee relief are available for FY 2000 requirements. With the onset of winter approaching and a potential need to provide additional refugee relief assistance, the Department believes it is premature to declare any uncommitted funds as excess and available for FY 2000 requirements.

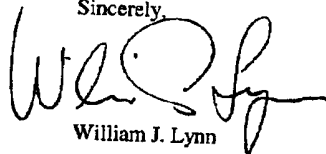
Third, the report identifies the \$1.1 billion munitions and readiness fund as potentially available. The Commanders in Chief of the Unified Commands and the Military Departments have identified requirements for critical readiness or sustainability items that greatly exceed the funding available in the Overseas Contingency Operations Transfer Fund. The Joint Requirements Oversight Council has evaluated the requests and validated requirements in excess of \$1.1 billion. These requirements are consistent with the Congress' intended use of these funds and the Department expects that the President soon will transmit an official budget request that designates a significant portion of these funds as an emergency. Consequently, these funds will not be available for FY 2000 requirements.

Appendix I
Comments From the Department of Defense

Finally, the \$300 million appropriated to the Operational Rapid Response Transfer Fund has been apportioned and allocated to the Military Departments for execution. These funds will be obligated shortly and are not available for FY 2000 requirements.

The Department appreciates the opportunity to comment on this report.

Sincerely,

A handwritten signature in dark ink, appearing to read 'W. J. Lynn', is written over the printed name.

William J. Lynn

GAO Contacts and Staff Acknowledgments

GAO Contacts

Carol Schuster (202) 512-3958
Steve Sternlieb (202) 512-4534

Acknowledgments

In addition to those named above, Joe Rutecki, Bonita Anderson, and Herb Dunn made key contributions to this report.